2011 Management Employees Pension Plan Annual Report

MEPP

management employees pension plan

2011 MEPP Annual Report

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Governance Statement

This is the Governance Statement of the
Management Employees Pension Board

The Minister of Finance (the Minister) is the statutory administrator of Management Employees Pension Plan (MEPP), and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs.

The Public Sector Pension Plans Act sets out the main objectives of the Management Employees Pension Board (the Board) with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions for funding purposes;
- recommends general policy guidelines for the investment and management of the Plan's assets;
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan; and
- reviews administrative decisions pursuant to a delegation from the Minister.

Administration Report

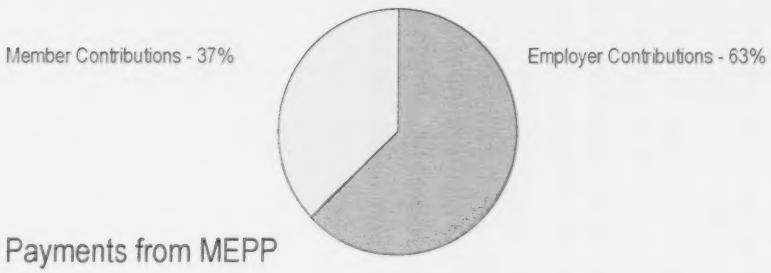
The Management Employee Pension Plan (MEPP) Administration Report is prepared by Alberta Pensions Services Corporation (APS), MEPP's administrator

Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the Minister of Finance) on behalf of MEPP members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

Contributions to MEPP

In 2011, total contributions to MEPP were $156 million.



Payments from MEPP

In 2011, total payments from MEPP were $144 million.

MEPP Members, Pensioners and Employers
MEPP has 22 employers and a total of 9,849 active and deferred members and pensioners. In 2011, 638 members joined the Plan, 244 members retired, 199 members deferred funds, and 113 members terminated and left the Plan.

MEPP Member Services Expenses
MEPP's share of APS operating and plan-specific costs are based on cost allocation policies approved by the Minister of Finance.

MEPP's share of APS costs were just over $1.59 million in 2011. Based on average membership, MEPP's per member service expense is $162, which includes APS operating costs, Board costs, actuarial fees and other professional fees.

Cost-of-Living Adjustment (COLA) to Pensions in Pay
After a member begins to receive a pension, a cost-of-living adjustment is applied every year there is an increase in the *Alberta Consumer Price Index (ACPI)*. COLA is equal to 60 per cent of the yearly increase of the *ACPI*.

The cost-of-living adjustment granted to pensioners who retired prior to January 1, 2011 was 0.60 per cent. For those who retired during 2011, the COLA was prorated depending on the month of retirement.

Initiatives in 2011
APS focused on the following initiatives in 2011 to further enhance services to our valued MEPP clients:

- Performed a thorough review of the Benefit Options Package and processes to better help members understand their options.
- Continued the promotion of **mypensionplan**. As of December 31, 2011, MEPP had 681 new members registered on **mypensionplan** for a total of 2,884 registrations.
- Launched an updated Leave of Absence Notice of Cost package which answers the question, "Why is it important to buy back pensionable service," and easy next step instructions were created. APS will mail the packages directly to members, with members now having the option of registering their decision to purchase on **mypensionplan**.
- Provided online registration for members who require one-on-one information sessions.
- Provided members with the option to "Go Green" for their member newsletter. In addition to receiving notification of their member annual statement via e-mail, members can sign up to receive notification of new issues of member newsletters via e-mail.
- Continued to work on three multi-year projects to efficiently and effectively address changes in service demand:
  - Simplifying processes – streamlining processes to add value and clarity for APS and our valued clients, improving the quality and consistency of the pension experience.
  - Simplifying policies – reducing complexity of pension administration policies and looking for opportunities to improve understanding for members, employers and staff.
  - Simplifying systems – upgrading and unifying the application systems needed to successfully deliver on our mandate to plan boards, members, pensioners and employers.

The Year Ahead
In 2012, APS plans to:

- Continue to work on the three multi-year projects to efficiently and effectively address changes in service demand.
- Review survey feedback to determine what action is required to better support members in transition.
- Continue to utilize new tools such as telephony reporting and call tracking to provide employers with more efficient service delivery.
- Expand our suite of products and services by launching an information video for MEPP's website.
- Start the process of building an organizational culture that increases employees' readiness to change and adapt.
- Promote a values-based culture to ensure our behaviours, interactions and decisions are guided by our shared values and in line with achieving our mission.

Investment Report

The MEPP Investment Report is prepared by the Ministry of Finance

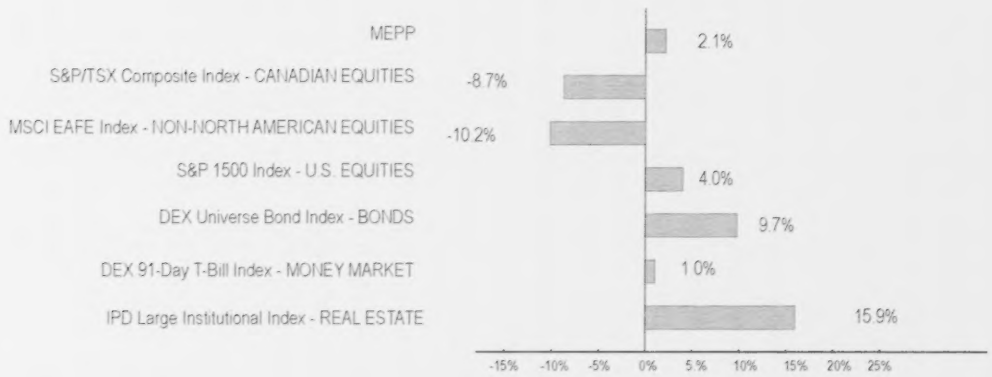
The fair value of the Plan's net assets at the end of 2011 increased to $2.63 billion, up $72 million from $2.56 billion at the end of 2010. In 2011, the Plan recorded a return on investments of 2.1 per cent, or $58 million, after investment expenses of $8.1 million compared to last year's gain of 10.2 per cent, or $237 million, after expenses of $7.2 million.

Equity markets finished the 1st half of 2011 in positive territory. In the U.S., companies churned out healthy profits and stock price-to-earnings ratios dropped to their lowest levels in recent years. Despite these positive stock market fundamentals, investor confidence was shaken and stock market declined in the 3rd quarter of 2011. Investors were fixated on the overwhelming bad news stemming from the European sovereign debt crisis and downgrades in credit ratings of numerous countries.

Even the U.S. credit rating was downgraded amid legislative gridlock over their increasing debt ceiling. In the 4th quarter, equity markets made a partial recovery. Overall, the Canadian and non-North American equity markets finished down in 2011 while the U.S. equity market closed the year in positive territory.

Despite the volatility in equity markets, the Plan's diversified investments in interest bearing securities and real estate more than offset losses from equities. The following chart summarizes the market returns from various indices around the world and the overall return of MEPP for 2011.

Returns for Major Markets and MEPP (in Canadian dollars)



In 2011, the Canadian stock market represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index decreased by 8.7 per cent down compared to a gain of 17.6 per cent in 2010.

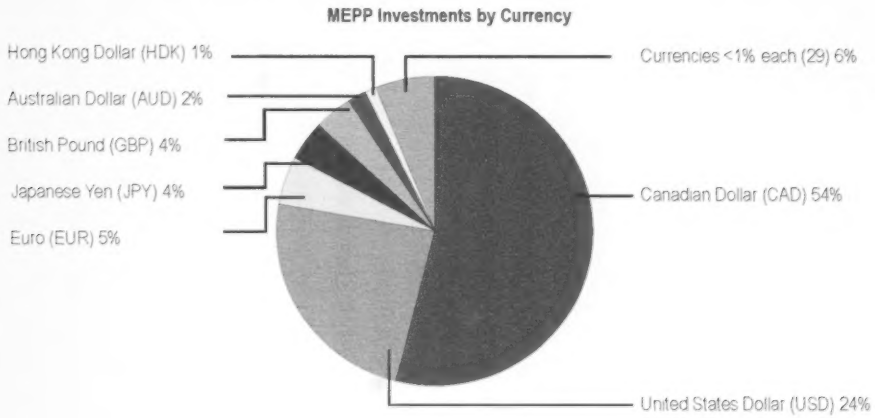
Equity markets outside of North America, represented by the Morgan Stanley Capital International Index for Europe, Australasia and the Far East (MSCI EAFE) Index, decreased by 10.2 per cent in Canadian dollars in 2011 compared to a gain of 2.4 per cent in 2010.

The S&P 1500 Index, which tracks the performance of the top 1500 American companies, increased by 4.0 per cent in Canadian dollars (1.8 per cent in U.S. dollars) in 2011, down from last year's gain of 10.6 per cent in Canadian dollars (16.4 per cent in U.S dollars). Returns were higher when translated into the weaker Canadian dollar.

The bond market represented by the DEX Universe Bond Index posted a positive return of 9.7 per cent in 2011 up from 6.7 per cent in 2010.

The Canadian real estate market, represented by the IPD Large Institutional Index, gained 15.9 per cent this year, compared to last year's gain of 11.2 per cent.

At December 31, 2011, 54 per cent of the Plan's investments were denominated in Canadian currency, followed by 24 per cent in U.S. currency and 22 per cent in currencies outside North America. The value of the Plan's foreign investment portfolio is exposed to foreign currency risk (i.e. loss) when the value of the Canadian currency strengthens against other currencies. By year-end, the Canadian dollar was slightly weaker against the U.S. dollar, meaning U.S. dollar investments were worth more when translated into Canadian dollars. At December 31, 2011, one U.S. dollar was worth 1.02 Canadian compared to 99 cents Canadian at the beginning of the year. One euro was worth $1.32 Canadian compared to $1.33 Canadian at the beginning of the year.


MEPP Investments by Currency
Hong Kong Dollar (HDK) 1%
Australian Dollar (AUD) 2%
British Pound (GBP) 4%
Japanese Yen (JPY) 4%
Euro (EUR) 5%
Currencies <1% each (29) 6%
Canadian Dollar (CAD) 54%
United States Dollar (USD) 24%

Investment Management Services

Alberta Investment Management Corporation, AIMCo, is a provincial corporation in the Alberta Ministry of Finance. AIMCo was created on January 1, 2008. AIMCo invests MEPP's assets subject to legislation and the investment policies recommended by the Board. The Plan invests in units issued by pooled investment funds. Pooled investment funds are created and managed by AIMCo. There are thousands of securities held in many pooled investment funds. These securities are bought, sold and managed by AIMCo on a daily basis. For various reasons, such as to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

The Board monitors AIMCo's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan members and ways to manage the inherent volatility of the long-term asset mix.

Statement of Investment Policies and Goals (SIP&G)

The *SIP&G* sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the *SIP&G* at least annually and recommends changes if necessary. The *SIP&G* can be viewed on the MEPP website at www.mepp.ca.

Asset Mix

MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2011, the long-term target asset mix was weighted more towards equities at 59.0 per cent, followed by inflation sensitive investments at 27.0 per cent and money market and fixed income securities at 14.0 per cent. AIMCo is given a broad range to invest within each asset class. The illiquid asset classes, such as real estate, private equities, infrastructure and hedge funds, are not always readily available for purchase and will take longer to attain their respective target asset mix.

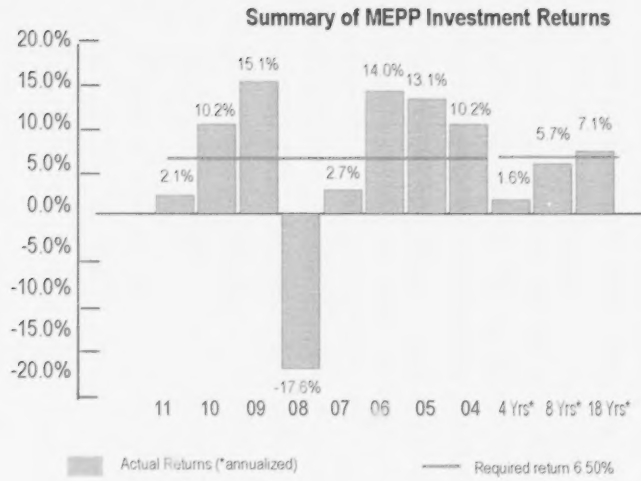
The table below shows MEPP's long-term policy asset mix benchmark including minimum and maximum ranges for each asset class in comparison to the Plan's actual asset mix at December 31, 2011 and 2010.

	ASSET MIX %				
	Policy Benchmark	Policy Minimum	Policy Maximum	Actual 2011	Actual 2010
Money Market and fixed income	**14.0**	**10.0**	**40.0**	**15.0**	**26.0**
Cash & short term		0.0	10.0	0.8	0.8
Universe bonds and private mortgage		0.0	20.0	14.2	25.2
Long bonds		5.0	20.0	0.0	0.0
Equities	**59.0**	**40.0**	**70.0**	**59.6**	**58.5**
Canadian		5.0	25.0	13.5	14.3
Foreign		20.0	45.0	41.8	40.1
Private equities		2.0	12.0	4.3	3.6
Hedge funds (1)		0.0	5.0	n/a	0.5
Inflation sensitive	**27.0**	**15.0**	**40.0**	**25.4**	**15.5**
Infrastructure and private debt and loan		5.0	15.0	5.8	2.2
Real estate		5.0	15.0	6.8	5.7
Real return bonds		5.0	20.0	12.8	7.6
Total	**100.0**			**100.0**	100.0

(1) In 2011, the Plan's investment in units of AIMCo's Absolute Return Strategy Pool (hedge funds) was transferred to foreign equities.

Long-term Investment Objective for Funding Purposes

The chart on the following page compares MEPP's overall actual returns for calendar years 2004 to 2011 and the four, eight and eighteen year annualized time periods against the required long-term investment return for funding purposes of 6.5 per cent. Over the past four years, the Plan's actual annualized return of 1.6 per cent was 4.9 per cent below the required long-term annualized investment return. Over eight years, the annualized actual return of 5.7 per cent was 0.8 per cent less than the required long-term annualized return. Over the longer term of eighteen years, the Plan's annualized actual return of 7.1 per cent was 0.6 per cent more than the target long-term rate of return.



Value Added Return from Active Management

In order to measure the investment performance from AIMCo's active management decisions, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the *SIP&G*. The overall performance goal is for AIMCo to add 75 basis points of value over a four-year rolling time period, or 0.75 per cent per annum, net of fees, above the passively managed market-based policy benchmark return. The policy benchmark return is determined by multiplying the benchmark return for each asset class by its percentage of the total investment portfolio.

Over four years, the Plan's investments gained 1.6 per cent per annum, or 0.9 per cent less than the benchmark gain of 2.5 per cent per annum. On an eight-year basis, the Plan gained 5.7 per cent per annum, or 0.2 per cent less than the benchmark gain of 5.9 per cent per annum. Over the longer term of eighteen years, the Plan's investments have earned 7.1 per cent per annum, or 0.1 per cent greater than the passively managed market-based benchmark of 7.0 per cent per annum.

The table below shows the value added by AIMCo in comparison to the various components of the policy benchmark.

Value Added / (Lost) by Manager in Comparison to Benchmarks	1 Year %	4 Year %	8 Year %
Fixed Income Securities			
Bonds and Mortgages	(0.5)	(0.9)	(0.4)
Equity			
Canadian Equity	0.9	0.8	0.7
Foreign Equity	0.7	(0.9)	(0.1)
Private Equity	9.3	(0.9)	n/a
Inflation Sensitive			
Real Estate	4.6	0.0	1.7
Real Return Bonds	(0.1)	(0.3)	(0.1)
Infrastructure	(2.1)	(1.5)	n/a
Overall Value Added (Lost)	**0.6**	**(0.9)**	**(0.2)**

The table below shows MEPP's overall actual investment return and returns for each asset class compared to the policy benchmark return in Canadian dollars.

Table of Investment Returns[1]

	Annual Returns (%) ($ Canadian)				Annualized Returns (%)	
	2011	2010 Restated (2)	2009	2008	4 yr	8 yr
OVERALL ACTUAL RETURN	**2.1**	**10.2**	**15.1**	**(17.6)**	**1.6**	**5.7**
Policy Benchmark Return	**1.5**	*10.4*	*15.1*	*(14.5)*	*2.5*	*5.9*
Consumer Price Index (CPI)	**2.9**	*2.0*	*1.0*	*2.0*	*2.0*	*2.0*
FIXED INCOME SECURITIES						
Short-Term Fixed Income	**1.2**	**1.0**	**1.8**	**6.3**	**2.6**	**3.1**
Bonds and Mortgages (1)	**9.2**	**9.5**	**7.2**	**(1.2)**	**6.1**	**5.8**
DEX Universe Bond Index	**9.7**	*6.7*	*5.4*	*6.4*	*7.0*	*6.2*
EQUITIES						
Canadian Equities	**(7.8)**	**18.8**	**38.3**	**(33.7)**	**0.1**	**8.1**
S&P/TSX Composite Index	**(8.7)**	*17.6*	*35.1*	*(33.0)*	*(0.7)*	*7.4*
Foreign Equities	**(4.6)**	**6.7**	**15.4**	**(31.2)**	**(5.2)**	**0.8**
MSCI All Country World Index (ACWI) (3)	**(5.3)**	*6.9*	*11.3*	*(25.7)*	*(4.3)*	*0.9*
Private equities (1) (2)	**4.0**	**9.6**	**(0.2)**	**(8.5)**	**1.1**	**n/a**
MSCI ACWI (4)	**(5.3)**	*16.9*	*38.2*	*(29.3)*	*2.0*	*n/a*
INFLATION SENSITIVE						
Real estate (1)	**20.5**	**12.2**	**(7.3)**	**5.4**	**7.2**	**13.6**
IPD Large Institutional Index	**15.9**	*11.2*	*(0.1)*	*3.1*	*7.2*	*11.9*
Real Return Bonds	**18.1**	**11.0**	**13.0**	**1.0**	**10.6**	**9.1**
DEX Real Return Bond Index (RRBI)	**18.3**	*11.1*	*14.5*	*0.4*	*10.9*	*9.2*
Infrastructure (1) (2)	**4.4**	**7.2**	**3.0**	**14.6**	**7.2**	**n/a**
50% MSCI ACWI and 50% DEX RRBI (5)	**6.5**	*13.6*	*7.0*	*8.0*	*8.7*	*n/a*

(1) Investment returns are provided by AIMCo. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.

(2) The overall actual return for 2010 has been increased from 10.1 per cent to 10.2 per cent and the overall benchmark return was decreased from 10.5 per cent to 10.4 per cent resulting from an increase in estimated 2009 actual returns for private equities (-2.7 per cent to -0.2 per cent) and infrastructure (2.1 per cent to 3.0 per cent).

(3) Prior to July 1, 2010, the combined S&P 1500 Index and MSCI EAFE Index.

(4) Prior to July 1, 2010, S&P/TSX Composite Index plus 2.5 per cent.

(5) Prior to July 1, 2010, CPI plus 6.0 per cent.

MONEY MARKET AND FIXED INCOME SECURITIES

At December 31, 2011, the Plan's money market and fixed income portfolio totalled $395 million or 15.0 per cent of total investments compared to $667 million or 26.0 per cent at December 31, 2010.

The Plan's money market and fixed income portfolio includes investments in AIMCo's Universe Fixed Income Pool, Private Mortgage Pool and the Consolidated Cash Investment Trust Fund (CCITF).

Summary of Money Market and Fixed Income Securities
Total $395 million

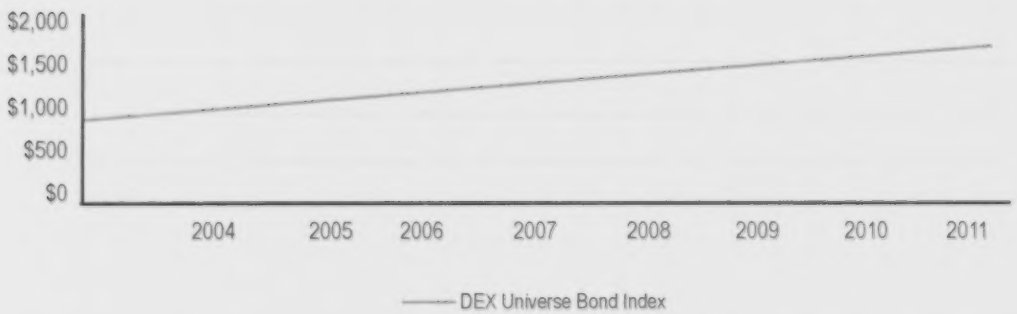
Pooled Fund Securities by Issuer Relative to Benchmark	Universe Fixed Income Pool (%)	Private Mortgage Pool (%)	*Benchmark DEX Universe Bond Index (%)*
Federal	9	-	*44*
Provincial	25	-	*28*
Municipal	1	-	*2*
Corporate	49	-	*26*
Private debt and mortgages	10	98	-
Less than one year	6	2	-
Total per cent	**100**	**100**	**100**

The Plan's actual gain in 2011 from bonds and mortgages was 9.2 per cent, 0.5 less than benchmark gain of 9.7 per cent. The Plan's actual gain from cash and short-term investments totalled 0.5 per cent in 2011.

Bonds and Mortgages	Actual Return	Benchmark Return
1 Year	9.2%	9.7%
4 Years	6.1%	7.0%
8 Years	5.8%	6.2%

The chart below shows the growth in value over eight years of $1,000 dollars (Canadian) invested in the bond market, represented by the DEX Universe Bond Index, for the period December 31, 2004 to December 31, 2011. After eight years, $1,000 would grow to approximately $1,616.

$1,000 Canadian Invested in Bond Market over 8 years

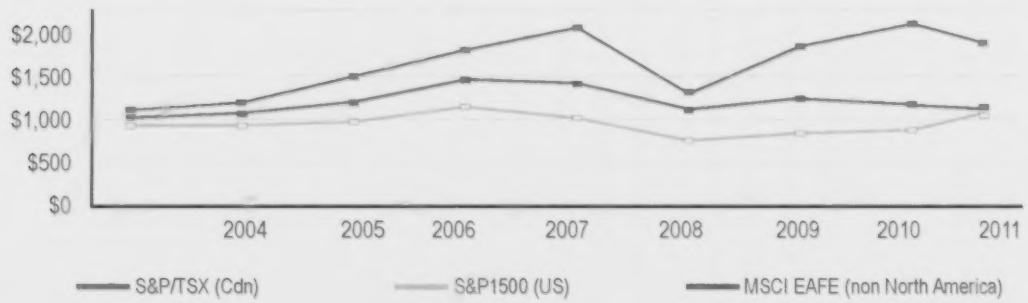


EQUITY INVESTMENTS

Given MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. At December 31, 2011 equities represent 59.6 per cent (2010: 58.5 per cent) of the Plan's total asset mix and consisted of Canadian public equities 13.5 per cent (2010: 14.3 per cent), foreign public equities 41.8 per cent (2010: 40.1 per cent), private equities 4.3 per cent (2010: 3.6 per cent) and hedge funds 0.0 per cent (2010: 0.5 per cent).

The chart below shows the growth over eight years in $1,000 dollars (Canadian) invested in major equity markets in Canada, U.S. and non-North America for the period December 31, 2004 to December 31, 2011. For example, $1,000 dollars invested on December 31, 2004, in the Canadian stock market represented by the S&P/TSX Composite Index would be worth approximately $1,772 dollars at December 31, 2011. An investment of $1,000 Canadian dollars in the U.S. equity market or in Europe, Australasia and Far East market would be worth $1,072.

$1,000 Canadian Invested in Equity Indicies over 8 years



Canadian Equities

At December 31, 2011, Canadian equities represent 13.5 per cent of MEPP's total investments (or $356 million) down from 14.3 per cent (or $367 million) at the end of the previous year. MEPP's Canadian equity investment is held primarily in AIMCo's Canadian Equities Master Pool. The Pool includes directly held investments in Canadian public companies and structured equity products which replicate Canadian public equity investments using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX). Directly held interest bearing securities support the notional value of index swaps and futures contracts.

The actual loss from Canadian equity investments over the year was 7.8 per cent, 0.9 per cent better than the benchmark loss of 8.7 per cent based on the S&P/TSX Composite index.

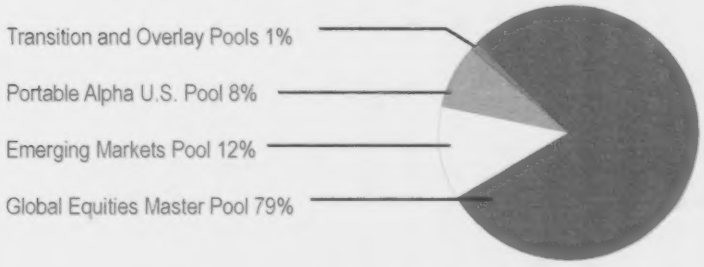
Canadian Public Equities	Actual Return	Benchmark Return
1 Year	(7.8)%	(8.7)%
4 Years	0.1%	(0.7)%
8 Years	8.1%	7.4%

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2011 Sector	Benchmark TSX Composite Index %	Over (Under) Benchmark %
Consumer discretionary	4	1
Consumer staples	3	3
Energy	27	(2)
Financials	30	1
Health Care	1	-
Industrials	6	1
Information technology	1	-
Materials	21	-
Telecommunications	5	1
Utilities	2	1
	100.0	

Foreign Public Equities

At December 31, 2011, foreign equities comprised 41.8 per cent of total MEPP investments (or $1,101 million), up from 40.1 per cent or $1,029 million at the end of the previous year. MEPP's investment in foreign public equities includes investments in AIMCo's Global Equity Master Pool, the Portable Alpha U.S. Pool, the Emerging Markets Equity Pool and other equity allocations.

Summary of Foreign Equities by Pool Total $1,101 million



In 2011, the actual loss from foreign public equities was 4.6 per cent, 0.7 per cent better than the benchmark loss of 5.3 per cent based on the MSCI All World Country Index.

Foreign Public Equities	Actual Return	Benchmark Return
1 Year	(4.6)%	(5.3)%
4 Years	(5.2)%	(4.3)%
8 Years	0.8%	0.9%

Global Equities

Global equities include the Global Equities Master Pool and the Portable Alpha U.S. Pool. The Global Equity Master Pool includes directly held investments in public companies in the U.S., Europe, Australasia, and the Far East (EAFE) with smaller allocations to emerging markets and Canada. The Pool replicates exposure to foreign equity markets by investing in structured equity products using index swaps and futures contracts. Directly held interest bearing securities support the notional value of index swaps and futures contracts. MEPP's investment in the Portable Alpha U.S. Pool provides value-added returns from hedge fund strategies. In 2011, the global equity portfolio lost 2.6 per cent.

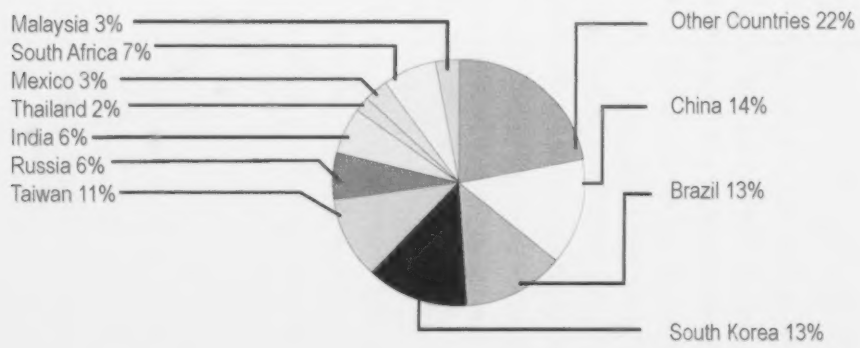
Global Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2011 Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
Consumer discretionary	10	(1)
Consumer staples	11	6
Energy	12	(2)
Financials	18	(4)
Health Care	11	-
Industrials	11	5
Information technology	12	1
Materials	7	(2)
Telecommunications	4	(1)
Utilities	4	(2)
	100.0	

Global Equities Master Pool Relative Regional Exposure to Benchmark December 31, 2011 Region	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
United States	53	(3)
Europe, Australasia & the Far East	42	4
Emerging markets	-	(1)
Canada	5	-
	100.0	

Emerging Markets

MEPP's investment in AIMCo's Emerging Markets Pool makes up approximately 12 per cent of the Plan's foreign equity investment. The Pool is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. The Pool includes investments in China, Brazil, South Korea, Taiwan, Russia, India and other countries. In 2011, the emerging markets portfolio lost 18.7 per cent.

Top Ten Countries in Emerging Markets Pool



Private Equities

The Plan's investment in AIMCo's private equity pools comprised 4.3 per cent (or $113 million) of the total investment portfolio at December 31, 2011 up from 3.6 per cent (or $91 million) the previous year. AIMCo's private equity pools include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

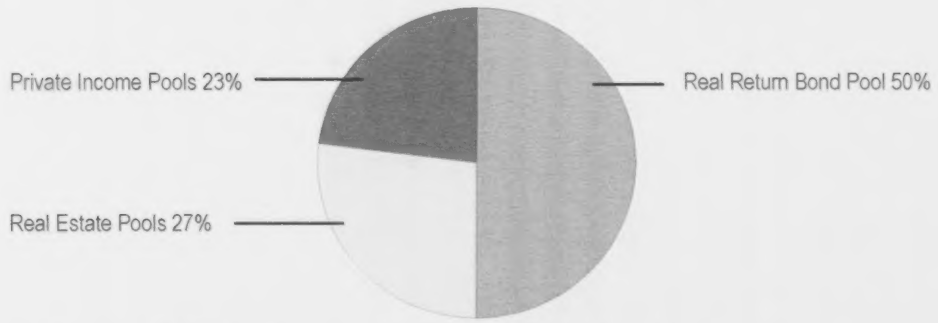
In 2011, private equities gained 4.0 per cent which was 9.3 per cent above the market-based benchmark loss of 5.3 per cent.

Private Equities	Actual Return	Benchmark Return
1 Year	4.0%	(5.3)%
4 Years	1.1%	2.01%
8 Years	n/a	n/a

INFLATION SENSITIVE

At December 31, 2011, the Plan's inflation sensitive portfolio comprised 25.4 per cent (or $670 million) of total investments compared to 15.5 per cent (or $397 million) at the end of the previous year. The inflation sensitive portfolio consists of real estate, private income (infrastructure, and private debt and loan) and real returns bonds.

Inflation Sensitive Investments Total Investment $670 million



Private Income (Infrastructure, and private debt and loan)

The Plan's investment in private income comprises 5.8 per cent (or $153 million) of the total investment portfolio at December 31, 2011 compared to 2.2 per cent (or $57 million) the previous year. AIMCo's infrastructure pools include projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g., toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). AIMCo's Private Debt and Loan Pool primarily include Canadian and foreign unrated debt.

In 2011, private income gained 4.4 per cent, 2.1 per cent below the benchmark gain of 6.5 per cent.

Private Income	Actual Return	Benchmark Return
1 Year	4.4%	6.5%
4 Years	7.2%	8.7%
8 Years	n/a	n/a

Real Return Bonds

The Plan's investment in AIMCo's Real Return Bond Pool comprised 12.8 per cent (or $338 million) of the total investment portfolio at December 31, 2011 compared to 7.6 per cent (or $195 million) the previous year. The Real Return Bond Pool includes bonds which pay a rate of return adjusted for inflation. The Pool is comprised of Government of Canada bonds (77 per cent), provincial bonds (11 per cent) and corporate bonds (12 per cent).

In 2011, real return bonds gained 18.1 per cent, which was 0.2 per cent below the benchmark gain of 18.3 per cent.

Real Return Bonds	Actual Return	Benchmark Return
1 Year	18.1 %	18.3%
4 Years	10.6%	10.9%
8 Years	9.1%	9.2%

Real Estate

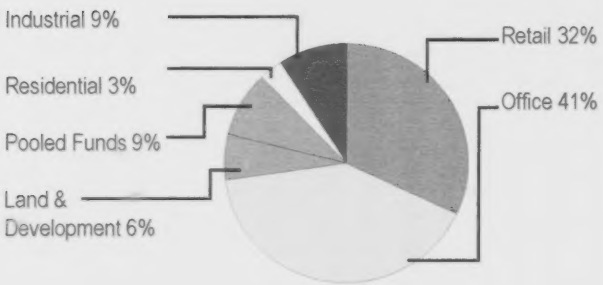
At December 31, 2011, the Plan's investment in AIMCo's private real estate pools comprised 6.8 per cent (or $179 million) of total investments compared to 5.7 per cent (or $145 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

The actual gain from real estate in 2011 was 20.5 per cent, 4.6 per cent more than the benchmark gain of 15.9 per cent from the IPD Large Institutional Index.

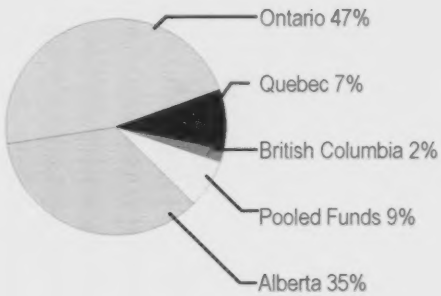
Real Estate	Actual Return	Benchmark Return
1 Year	20.5 %	15.9%
4 Years	7.2%	7.2%
8 Years	13.6%	11.9%

Top Five Real Estate Holdings as at December 31, 2011		
Property	**Location**	**Sector**
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

Private Real Estate Pool by Type



Private Real Estate Pool by Province



Proxy Voting

The Board considers proxy voting to be a key element of responsible investing and believes that thoughtful voting is a contributor to optimizing the long term value of investments. We entrust the proxy voting function to AIMCo. Day-to-day research and mechanical functions have been outsourced to an independent advisor who specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

Risk Management System

The Board accepts that in order to meet the return objectives of the Plan, it must take on risk in the assets in which it invests. The Board invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

The Board has established a series of limits on the risks to the Plan's funded status within its investment policy, which will be measured, monitored, and managed on this basis. As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

Appendix: Financial Statements

The MEPP Financial Statements are prepared by the Ministry of Finance

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands)	
	2011	**2010**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 2,634,480	$ 2,563,649
Contributions receivable		
Employers	568	395
Employees	336	232
Accrued investment income and accounts receivable	2,419	161
Total Assets	2,637,803	2,564,437
Liabilities		
Accounts payable	1,947	244
Total Liabilities	1,947	244
Net assets available for benefits	$ 2,635,856	$ 2,564,193
Pension obligation and deficit		
Pension obligation (Note 5)	$ 3,153,582	$2,961,280
Deficit (Note 6)	(517,726)	(397,087)
Pension obligation and deficit	$ 2,635,856	$ 2,564,193

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands)	
	2011	**2010**
Increase in Assets		
Contributions (Note 7)	$ 155,835	$ 144,953
Investment income (Note 8)	65,849	244,018
Transfers from other plans, net	1,873	4,853
	223,557	393,824
Decrease in Assets		
Benefit payments (Note 10)	142,152	128,352
Investment expenses (Note 11)	8,150	7,224
Administrative expenses (Note 12)	1,592	1,770
	151,894	137,346
Increase in net assets	71,663	256,478
Net assets available for benefits at beginning of year	2,564,193	2,307,715
Net assets available for benefits at end of year	$ 2,635,856	$ 2,564,193

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	($ thousands)	
	2011	2010
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 188,531	$ 179,779
Benefits earned	106,976	102,230
Net increase due to actuarial assumption changes (Note 5a)	37,074	69,371
	332,581	351,380
Decrease in pension obligation		
Benefits, transfers and interest	140,279	123,499
Net experience gains (Note 5b)	-	57,515
	140,279	181,014
Net increase in pension obligation	192,302	170,366
Pension obligation at beginning of year	2,961,280	2,790,914
Pension obligation at end of year (Note 5)	$ 3,153,582	$ 2,961,280

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Plan Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employee and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2011 are 11.16% (2010: 10.5%) of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% (2010: 18.0%) for employers.

The contribution rates are reviewed at least once every three years by the Minister of Alberta Finance, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates were increased at January 1, 2011 to 11.16% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January first by an amount equal to 60% of the increase in the *Alberta Consumer Price Index*. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3k) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

The Plan invests in units of pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the sixth business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The methods used by AIMCo to determine the fair value of investments held by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income and expenses are recognized on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3k) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, absolute return strategies and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, absolute return strategies and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		2010	
	Fair Value		Fair Value	
		%		%
Interest-bearing securities				
Deposits and short-term securities [a]	$ 20,358	0.8	$ 21,085	0.8
Bonds and mortgages [b]	374,777	14.2	646,220	25.2
	395,135	15.0	667,305	26.0
Equities				
Canadian public [c]	355,922	13.5	367,442	14.3
Foreign public [d]	1,101,023	41.8	1,028,848	40.1
Private [e]	112,685	4.3	90,657	3.6
Absolute return strategy hedge funds [f]	-	-	12,659	0.5
	1,569,630	59.6	1,499,606	58.5
Inflation sensitive				
Real estate [g]	178,911	6.8	144,637	5.7
Infrastructure and private debt and loan [h]	152,634	5.8	56,754	2.2
Real return bonds [i]	338,170	12.8	195,347	7.6
	669,715	25.4	396,738	15.5
Total investments [j] [k]	$ 2,634,480	100.0	$ 2,563,649	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the *Statement of Investment Policies and Guidelines (SIP&G)* approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) totalling $20,358 (2010: $19,492) and short-term securities of $nil (2010: $1,593). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $270,478 (2010: $534,337) and mortgages totalling $104,299 (2010: $111,883). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity

NOTE 3 INVESTMENTS CONTINUED

portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

f) Effective October 2011, hedge fund assets were transferred to the global developed portfolio (see Note 3d).

g) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The infrastructure portfolio includes investments in infrastructure partnerships totalling $125,765 (2010: $52,987) and investments in private debt and loans totalling $26,869 (2010: $3,767). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g., toll roads, airports, ports and rail), power or energy investments (e.g., contracted power generation, power transmission pipelines) and utilities (e.g., water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e., BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

j) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets

or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three*	Total
Interest-bearing securities	$ -	$ 290,836	$ 104,299	$ 395,135
Equities	1,003,965	362,948	202,717	1,569,630
Inflation sensitive	-	338,170	331,545	669,715
2011 - Total Amount	$ 1,003,965	$ 991,954	$ 638,561	$ 2,634,480
- Percent	38%	38%	24%	100%
2010 - Total Amount	$ 903,254	$ 1,178,305	$ 482,090	$ 2,563,649
- Percent	35%	46%	19%	100%
Increase (decrease) during the year	$ 100,711	$ (186,351)	$ 156,471	$ 70,831

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)	
	2011	**2010**
Balance, beginning of year	$ 482,090	$ 395,947
Investment income	53,017	46,157
Purchases of Level 3 pooled fund units	205,784	122,486
Sale of Level 3 pooled fund units	(102,330)	(82,500)
Balance, end of year	**$ 638,561**	**$ 482,090**

k) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $28,751 or 1.1% of total investments (2010: $35,736 or 1.4% of total investments).

NOTE 3 INVESTMENTS CONTINUED

The following is a summary of the Plans proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at December 31, 2011:

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount[a]	Net Fair Value[b]	Notional Amount[a]	Net Fair Value[b]
	%						
Equity replication derivatives[c]	94	6	-	$ 1,574,301	$ 14,860	$ 1,263,905	$ 23,006
Interest rate derivatives[d]	47	18	35	293,656	(929)	323,879	305
Foreign currency derivatives[e]	100	-	-	725,883	471	359,001	(630)
Credit risk derivatives[f]	17	21	62	117,847	(2,241)	320,387	(3,453)
Derivative related receivables, net					12,161		19,228
Deposits in futures margin accounts					16,581		16,508
Deposits as collateral for derivative contracts					9		-
Net derivative related investments					$ 28,751		$ 35,736

Net derivative related receivables of $12,161 are comprised of net receivables from counterparties of $32,931 and net payables to counterparties of $20,770. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts.

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(e) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(f) Credit risk derivatives include credit default swaps, allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount, in exchange for a contingent payment, should a defined credit event occur with respect to the underlying security.

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $(153) (2010: $452).

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the *SIP&G* approved by the Board. The purpose of the *SIP&G* is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3k).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Interest-bearing securities (money market and fixed income)	10-40%
Equities	40-70%
Inflation sensitive	15-40%

a) CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of the Plan's investments in debt securities are with counterparties considered to be investment grade.

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	85%
Speculative Grade (BB+ or lower)	0%
Unrated	15%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3k). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 46% of the Plan's investments, or $1,201 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $120 million (2010: $121 million). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions)	
	2011	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 646	$ (65)
Euro	139	(14)
Japanese yen	94	(9)
British pound	94	(9)
Australian dollar	37	(4)
Swiss franc	28	(3)
Other foreign currencies	163	(16)
Total foreign currency investments	$ 1,201	$ (120)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $67 million (2010: $69 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	3%	46%	51%	3.7%
Real return bonds	7%	2%	91%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $132 million (2010: $121 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3k).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $3,153,582 (2010: $2,961,280) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.30	6.40
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2023 using Scale AA	

* In addition to age specific merit and promotion increase assumptions.

NOTE 5 PENSION OBLIGATION CONTINUED

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2013.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2010 gains of $57,515) arose from differences between the actuarial assumptions used in the 2009 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings *
	%	$	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	222,200	1.5
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	15,400	0.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	406,400	4.0

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2009 valuation was 21.6%.

NOTE 6 DEFICIT

	($ thousands)	
	2011	2010
Deficit at beginning of year	$ (397,087)	$ (483,199)
Increase in net assets available for benefits	71,663	256,478
Net increase in pension obligation	192,302	170,366
Deficit at end of year	$ (517,726)	$ (397,087)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2011	2010
Current service		
Employers	$ 97,324	$ 90,011
Employees	56,811	52,534
Past service		
Employers	406	261
Employees	1,294	2,147
	$ 155,835	$ 144,953

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The following is a summary of the Plan's investment income and expenses by asset class.

	($ thousands) 2011	2010
Interest-bearing securities	$ 41,999	$ 64,915
Absolute return strategies	575	1,359
Canadian equities	(27,269)	67,934
Foreign equities	(48,892)	70,493
Private equities	7,741	5,768
Real estate	31,208	15,798
Real return bonds	56,864	12,836
Infrastructure and private debt and loan	3,623	4,915
	$ 65,849	**$ 244,018**

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2011	2010 (restated) [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain (loss)	2.1	10.2	1.6	5.7	7.1
Policy Benchmark gain (loss) [b]	*1.5*	*10.7*	*2.5*	*5.9*	*7.0*
Value added (lost) by investment manager	0.6	(0.5)	(0.9)	(0.2)	0.1
Expected value added [c]	0.75	0.75	0.75	0.75	0.75

[a] Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

[b] The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) CONTINUED

(c) In the SIP&G, the Public Service Pension board expects that the investments held by the Plan will return approximately 75 basis points, or 0.75%, above the policy benchmark over four-year rolling time periods.

(d) The actual and benchmark returns reported for 2010 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2010 financial statements. As a result, the actual return in 2010 changed from 10.1% to 10.2% and the benchmark return changed from 10.5% to 10.7%.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2011	**2010**
Retirement benefits	$ 128,944	$ 119,037
Disability benefits	350	348
Termination benefits	10,311	5,779
Death benefits	2,547	3,187
	$ 142,152	$ 128,351

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses are provided below:

	($ thousands)	
	2011	**2010**
Interest-bearing securities	$ 810	$ 916
Absolute return strategies	107	94
Canadian equities	551	630
Foreign equities	3,426	2,849
Private equities	1,515	1,400
Real estate	768	594
Real return bonds	333	126
Infrastructure and private debt and loan	640	615
Total investment expenses	$ 8,150	$ 7,224
Average fair value of investments	$ 2,599,065	2,440,024
Percent of investments at average fair value	0.31%	0.30%
Investment expenses per member	$ 827	$ 779

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2011	2010
General administration costs	$ 1,357	$ 1,451
Board costs	58	54
Actuarial fees	13	43
Audit fees	42	40
Other professional fees	122	182
	1,592	1,770
Member service expenses per member	$ 162	$ 190

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $9,742 (2010: $9,000) or $989 (2010: $969) per member and 0.37% (2010: 0.35%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's *SIP&G* approved by the Board.

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,720,737 at December 31, 2011 (2010: $2,645,259).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2009 actuarial funding valuations are expected to be funded by special payments currently totalling 9.4% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 7.3% until December 31, 2016; to 2.5% until December 31, 2017; and to 2.1% until December 31, 2024.

The special payments have been included in the rates in effect at December 31, 2011 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

MEPP Ten-year Plan Summary (Unaudited) as at December 31, 2011

($ thousands)

	2011	2010	2009	2008	2007^	2006	2005	2004	2003	2002
Change in net assets										
Income										
Investment income (loss)	$ 65,849	$ 244,018	$ 307,231	$ (411,196)	$ 65,059	$ 279,150	$ 227,795	$ 163,484	$ 190,938	$ (76,107)
Contributions	155,835	144,953	144,721	131,406	114,463	104,003	86,003	66,663	56,297	46,230
Total Income	**221,684**	**388,971**	**451,952**	**(279,790)**	**179,522**	**383,153**	**313,798**	**230,147**	**247,235**	**(29,877)**
Expenditures										
Benefits paid	131,841	122,572	114,834	103,672	93,819	84,937	76,873	68,145	61,296	54,714
Refunds to members	10,311	5,780	6,552	8,405	5,987	4,653	1,900	2,117	1,143	1,603
Transfers to (from) other plans	(1,873)	(4,853)	(14,616)	(8,752)	(985)	(322)	(953)	186	170	293
Additional Government contribution	-	-	-	-	(40,000)	-	-	-	-	-
Investment expenses^	8,150	7,224	6,805	5,945	5,081	3,958	3,368	3,208	1,930	1,868
Member Service expenses	1,592	1,770	1,527	1,375	1,212	1,207	1,416	1,427	1,363	1,105
Total expenditures	**150,021**	**132,493**	**115,102**	**110,645**	**65,114**	**94,433**	**82,604**	**75,083**	**65,902**	**59,583**
Increase (decrease) in net assets	**71,663**	**256,478**	**336,850**	**(390,435)**	**114,408**	**288,720**	**231,194**	**155,064**	**181,333**	**(89,460)**
Net Assets										
Investments										
Short-term	20,358	21,085	30,625	8,706	10,780	11,844	11,941	29,865	17,784	9,889
Fixed income securities	712,947	841,567	795,087	665,179	855,975	788,921	741,675	640,618	567,255	529,924
Equities										
Canadian	355,922	367,442	504,419	410,891	551,487	494,753	473,466	449,245	423,513	354,208
Global	1,101,023	1,028,848	764,892	-	-	-	-	-	-	-
United States	-	-	-	284,038	318,886	354,435	282,183	249,229	230,224	212,193
Non-North American	-	-	-	323,824	363,542	374,427	313,927	269,192	255,251	210,579
Real Estate	178,911	144,637	124,121	175,510	173,182	157,730	126,796	83,191	72,912	69,780
Alternative Investments	265,319	160,070	97,254	92,307	78,054	55,875				
Total Investments	**2,634,480**	**2,563,649**	**2,316,398**	**1,960,455**	**2,351,906**	**2,237,985**	**1,949,988**	**1,721,340**	**1,566,939**	**1,386,573**
Contribution and other receivables	3,323	788	1,154	11,021	9,694	8,988	8,282	5,779	5,215	4,716
Liabilities	(1,947)	(244)	(9,837)	(611)	(300)	(81)	(98)	(141)	(240)	(708)
Net Assets available for benefits	**2,635,856**	**$2,564,193**	**$2,307,715**	**$1,970,865**	**$2,361,300**	**$2,246,892**	**$1,958,172**	**$1,726,978**	**$1,571,914**	**$1,390,581**
Actuarial value of accrued benefits	3,153,582	2,961,280	2,790,914	2,539,439	2,445,641	2,253,657	2,124,067	1,995,079	1,861,928	(1,692,549)
Surplus (Deficiency)	**(517,726)**	**(397,087)**	**(483,199)**	**(568,574)**	**(84,341)**	**(6,765)**	**(165,895)**	**(268,101)**	**(290,014)**	**(301,968)**
Funded Ratio (%)	84	87	83	78	97	100	92	87	84	82
Performance (%)										
Long-term goal	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.0
Rate of return-nominal^^^^^	2.10	10.2	15.0	(17.6)	2.7	14.0	13.1	10.2	13.7	(5.3)
Benchmark^^^^^	1.50	10.4	15.1	(14.4)	2.6	13.2	11.9	10.0	12.8	(5.6)
Consumer Price Index (Canada)	2.90	2.0	1.0	2.0	2.4	1.6	2.2	2.1	2.0	3.9
Real rate of return	(0.80)	8.1	14.0	(19.8)	0.3	12.4	10.9	8.1	11.7	(9.2)
Interest Rates (%)										
Bank of Canada	1.00	1.00	0.25	1.75	4.25	4.25	3.25	2.75	2.75	3.00
US Federal Reserve	0.25	0.25	0.25	0.50	4.25	5.25	4.25	2.25	1.00	0.75
Market Indices (%)										
S&P/TSX ($Cdn)	(8.70)	17.6	35.1	(33.0)	9.8	17.3	24.1	14.5	26.8	(12.4)
S&P 1500 ($Cdn)^^	4.00	10.6	8.8	(21.6)	(10.6)	15.3	1.6	3.3	5.3	(22.9)
MSCI EAFE ($Cdn)	(10.20)	2.4	12.6	(29.8)	(5.7)	26.0	10.0	12.0	13.3	(16.8)
DEX Universe Bond Index^^^	9.70	6.7	5.4	6.4	3.7	4.1	6.5	7.1	6.7	8.7
Participants ^^^^										
Active members	5,215	5,036	5,452	5,244	4,868	4,654	4,447	4,206	4,029	3,665
Inactive members	998	946	631	675	733	789	756	731	770	873
Retirees	3,636	3,384	3,112	2,905	2,684	2,446	2,211	2,016	1,837	1,669
Total	**9,849**	**9,366**	**9,195**	**8,824**	**8,285**	**7,889**	**7,414**	**6,953**	**6,636**	**6,207**
Contribution Rates (%)										
Employees	11.16	10.50	10.50	10.50	10.50	10.50	10.50	9.50	9.50	7.75
Employers	19.14	18.00	18.00	18.00	18.00	18.00	18.00	13.10	13.10	10.75
Annual COLA pension adjustment	0.60	0.06	2.16	2.94	2.16	1.20	0.78	3.42	1.02	1.98

^ Comparative figures have been restated to be consistent with 2007 presentation.

^^ S&P 500 for 2005 and prior years.

^^^ Scotia Capital Fixed Income Indices for 2006 and prior years.

^^^^ Participant counts may differ from the actuarial valuation results due to timing differences and treatment of inactive member accounts.

^^^^^ The overall actual return for 2010 has been increased from 10.1 per cent to 10.2 per cent and the overall benchmark return was decreased from 10.5 per cent to 10.4 per cent resulting from an increase in estimated 2009 actual returns for private equities (-2.7 per cent to -0.2 per cent) and infrastructure (2.1 per cent to 3.0 per cent).